



Summary of Major Interfund Transfers

Information in Preparation for Council Policy Discussion
for FY 2017-18 Budget Development

April 2017

Produced by the City of Austin Budget Office

1.0 Introduction

In preparation for the development of the FY 2017-18 City of Austin budget, City Council is scheduled to discuss a number of policy-related issues identified by Council during the Department Review briefings held February, March and April, 2017. Specific to this report, Council stated it would like to discuss the allocation of costs between enterprise funds and the General Fund and the policies and assumptions upon which they are based.

The material contained within this report is designed to provide Council with the information requested by outlining the major interfund transfers, reviewing the transfer's purpose, and providing detail on the underlying policies and methodologies used to determine the transfer amounts. In general, there are two types of transfers covered within the scope of this report. The largest category consists of transfers made for the payment for services, either direct as with the General Fund's payment to Austin Water for the management of the Balcones Canyonland Preserve or indirect as with the contribution from departments to the Support Services Fund. The second type is the General Fund transfer in which the two municipally-owned utilities transfer a portion of their net revenue for General Fund purposes in accordance with State law and bond covenants. Also included is Austin Energy's street lighting service which, while not a transfer, does convey benefit to the General Fund inasmuch as if it were not covered by Austin Energy, another funding source would need to cover those costs.

In Section 3.0 there is a brief discussion of modifications made over the past several years to a few of the transfers. Changes range from refining metrics used in cost allocations to implementing an entirely new funding model accompanied by a Council approved policy change.

Council also asked about the legal principles controlling the transfer of funds from Enterprise Departments to the General Fund. That response has been provided through a separate memorandum from the Law Department dated April 11, 2017.

2.0 Summary of Major Interfund Transfers

2.01 GENERAL FUND TRANSFER **\$150.9M**

The General Fund Transfer is an annual transfer from Austin Energy and Austin Water to the City of Austin's General Fund. Transfers from these utilities to the General Fund reflect payments – such as property taxes, franchise fees, and owners' return on equity – that private utilities would otherwise have to make. The transfer rates are set by Council at 12% of the three-year average of gross non-fuel revenue for the electric utility and 8.2% of the three-year average of gross revenue for the water utility. For FY 2016-17, those transfers are budgeted at \$108.0 million and \$42,876,568, respectively.

2.02 SERVICE AREA LIGHTING **ESTIMATED AT \$9.8M**

Service area lighting (SAL) provides a public benefit, which includes lighting and comfort to the public, but also promotes public safety, crime reduction, and improved access and reduced congestion on roadways. It is funded through a cost-based electric rate (tariff) which covers the costs of not only providing electric service for illumination (i.e., streetlights) but traffic signals service on public streets and highways as well.

Austin Energy does not collect the SAL tariff from customers outside the City of Austin. The total cost projected for FY 2016-17 is \$9.5 million.

AE only pays for the portions of the City of Austin lighting that lie within AE’s service territory. Public Works pays for the areas within the Pedernales and Bluebonnet Electric Cooperatives’ service territories. The Public Works Department’s budget for FY 2016-17 for these areas is \$300,000.

2.03 BALCONES CANYONLAND PRESERVE \$1.4M

AWU manages the City’s wildlands and Balcones Canyonland Preserve, which provide water quality protection and conserve habitat for endangered species. However, since management of the Balcones Canyonlands Preserve, which is a City and County endangered species protection preserve, does not contribute to water quality protection, the General Fund covers those costs. The FY 2016-17 transfer from the General Fund to Austin Water is \$1.4 million.

2.04 311 CALL CENTER \$11.7M

Austin Energy operates Austin’s 311 Call Center on behalf of all City departments. The 311 Call Center also serves as a backup for the Utility Customer Center (UCC), which is necessary for AE’s business continuity purposes and after-hours service. The costs for the call center, less 25% determined to be the center’s value to AE as a backup facility, are allocated to departments based on the number of service requests generated on behalf of that department. The contributions for FY 2016-17 are included in Table 1.

Table 1: 311 Call Center FY17 Allocation (in millions)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$4.8	Austin Resource Recovery	\$1.2
Austin Energy	\$3.1	Austin Transportation	\$0.8
Austin Code	\$0.8	Austin Water	\$0.2
Economic Development	\$0.1	Watershed	\$0.1
Public Works	\$0.6		

2.05 CAPITAL PROJECTS MANAGEMENT FUND \$5.8M

The Public Works Department provides services in support of the delivery of the City of Austin's Capital Program. The cost of services are assigned through both an allocation plan and direct services provided to each project.

The allocation plan covers the cost of services that the department provides on a centralized basis in support of the City’s Capital Program. These services include administration, contract monitoring, processing of payments, and design quality assurance. The plan is designed as closely as possible to identify the cost of services for each City department based on the work in support of their individual capital program.

The Public Works Department provides project management, construction inspection, and design services to the City of Austin's Capital Project Delivery projects through all phases of design and construction. Projects range from street reconstruction and water/wastewater infrastructure improvements to new fire

stations and libraries. Charges are billed directly to the projects for which services are provided. The contributions for FY 2016-17 are included in Table 2.

Table 2: Capital Projects Management Fund FY17 Allocation (in thousands)			
Fund/Department	Budget	Fund/Department	Budget
General Fund CIP	\$876	Austin Resource Recovery	\$65
Austin Energy	\$362	Austin Transportation	\$139
Austin Code	\$15	Austin Water	\$1,814
Economic Development	\$98	Watershed	\$774
Public Works	\$780	Aviation	\$771
Convention Center	\$92		

2.06 COMBINED TRANSPORTATION, EMERGENCY, & COMMUNICATIONS CENTER \$19.0M

The Combined Transportation, Emergency, and Communications Center (CTECC)—the facility and operations—is a partnership between the City of Austin, Travis County, Texas Department of Transportation, and the Capital Metropolitan Transportation Authority. It provides for improved emergency response coordination and cooperation by providing a centralized public safety facility sustaining the operations of shared, critical emergency communications and transportation management for the region. The primary goal of CTECC is to receive and process emergency 9-1-1 calls.

The cost of CTECC is shared among numerous City departments (Austin Code, Austin Energy, Austin Resource Recovery, Austin Transportation, Austin Water, Aviation, EMS, Fire, Homeland Security, Police, and Watershed Protection) and partner agencies through both a detailed allocation plan and direct assignment to each entity. Projects with distinct costs that benefit one or a few entities are directly charged to those entities. All other costs are determined through an allocation plan designed to identify as closely as possible the cost of services that the City departments and partner agencies receive from CTECC. The contributions for FY 2016-17 are included in Table 3.

Table 3: CTECC FY17 Allocation (in thousands)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$14,279	Austin Resource Recovery	\$11
Austin Energy	\$11	Austin Transportation	\$11
Austin Code	\$11	Austin Water	\$11
Aviation	\$144	Watershed	\$11
Outside Agencies	\$4,491		

2.07 COMMUNICATIONS AND TECHNOLOGY MANAGEMENT (CTM) \$56.6M

CTM is the City of Austin’s central information technology (IT) department and provides a broad array of IT services to COA departments. The cost of the CTM is shared among all City departments through both the allocation plan and direct assignment to each entity. Projects with distinct costs that benefit one or a few departments are directly charged to those departments. All other costs are determined through an allocation plan designed to identify as closely as possible the cost of services that the other City departments receive from CTM.

The CTM Cost Allocation Plan (CAP) utilizes a two-step plan. The first step in the allocation process is to proportionately distribute the overhead costs to each cost pool. Overhead costs include utilities, rent, and administrative staff. The second step is to allocate each cost pool based on function-specific metrics. As part of the annual budget process, the CTM CAP is evaluated, updated with the most recent metrics and costs available, and reviewed for accuracy to ensure costs are assigned to receiving departments on a reasonable and consistent basis. The contributions for FY 2016-17 are included in Table 4.

Table 4: CTM FY17 Allocation (in millions)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$29.1	Austin Resource Recovery	\$1.3
Austin Energy	\$7.7	Austin Transportation	\$1.0
Austin Code	\$1.0	Austin Water	\$4.1
Economic Development	\$0.3	Watershed	\$1.3
Public Works	\$1.9	Aviation	\$1.7
Convention Center	\$1.3	Fleet	\$0.7
Support Services	\$5.2		

The CTM CAP is prepared in conformity with Generally Accepted Accounting Principles and uses two documents as guides—the United States Office of Management and Budget’s (OMB) “Guidance for Grants and Agreements” (known as the OMB’s Super Circular) and the Government Finance Officers Association (GFOA) Best Practice “Measuring the Cost of Government Service”. The Plan is periodically reviewed by the City Auditor’s Office and other external entities, such as the Federal Aviation Administration, and it is subject to review by an independent external audit firm as part of the City’s annual financial audit.

2.08 CUSTOMER CARE \$60.3M

Austin Energy manages the Customer Care Center and utility billing system and receives payment from the other City departments that use those services (see Table 5). Cost are allocated using four metrics: amount billed, number of bills, number of service orders, and total meters read. Austin Energy is currently reviewing the model with KPMG and will be updating the model for the FY 2017-18.

Table 5: Customer Care Allocation FY17 Allocation (in millions)			
Fund/Department	Budget	Fund/Department	Budget
Austin Energy	\$34.4	Austin Transportation	\$0.4
Austin Water	\$20.4	Public Works	\$1.0
Austin Resource Recovery	\$1.1	Austin Code	\$1.3
Watershed	\$1.7		

2.09 ECONOMIC DEVELOPMENT DEPARTMENT

\$15.8M

The Economic Development Department (EDD) leads programs for economic development, urban regeneration, small business development, cultural arts, music industry, and emerging technology. EDD funding allows the City to leverage resources and partner with other public and private entities to promote economic growth and enhance the short-term and long-term economic viability of the community. Since the impacts of EDD’s efforts benefit the General Fund, Austin Energy, Austin Water, and Austin Resource Recovery, those entities share in the cost of EDD. Each contribute an equal share of their revenue—0.5337% in FY 2016-17—to meet EDD requirements. The contributions for FY 2016-17 are included in Table 6.

Table 6: EDD FY17 Allocation (in millions)	
Fund/Department	Budget
General Fund	\$4.9
Austin Energy	\$7.5
Austin Water	\$2.9
Austin Resource Recovery	\$0.5

2.10 FLEET SERVICES

\$45.0M

The City’s Fleet Services Fund provides for a full range of services to City departments by managing the full lifecycle of all vehicles and equipment including acquisitions, fueling, maintenance, repair, and disposition. Billings to other City departments are allocated based on maintenance and repair services utilized and fuel consumed.

Maintenance and repair services are billed in two ways: assigned maintenance rate and direct charges for service. The assigned maintenance rate is based on the citywide average maintenance cost per vehicle type over the past twelve months. This charge is determined and updated annually and used throughout the fiscal year. Direct charges are billed monthly to all customer departments based upon actual cost. Examples of direct charges include special modifications to vehicles or and other work not considered normal repair and maintenance.

Fleet Services bills other departments for fuel use based upon actual fuel usage. The cost per gallon price is determined and update annually based on wholesale cost projections from the U.S. Energy Information Administration, increases in demand, purchases of diversified fuels, and the markup to account for program operations and overhead costs. The contributions for FY 2016-17 for both fuel and maintenance are included in Table 7.

Table 7: Fleet FY17 Allocation (in millions)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$19.8	Austin Resource Recovery	\$9.5
Austin Energy	\$3.8	Austin Transportation	\$0.6
Austin Code	\$0.4	Austin Water	\$4.8
Golf	\$0.2	Watershed	\$1.8
Public Works	\$3.5	Aviation	\$0.2
Convention Center	\$0.1	Support Services	\$0.3

2.11 LIABILITY RESERVE

\$4.1M

The Liability Reserve Fund was established in 1985 in response to nationwide problems associated with obtaining liability insurance. The Liability Reserve Fund pays the City’s settled claims and losses related to third-party liability for bodily injury and property damage, including contractual and professional liability. Transfers from each fund are based on the three-year rolling average of the department’s lawsuit claims history plus an amount based on the number of employees in each department. This employee-based transfer is similar to an insurance premium and is used to cover administrative costs of the Liability Reserve Fund and reduce the impact of claims in the future. The contributions for FY 2016-17 are included in Table 8. Austin Energy, Austin Water, and Aviation do not contribute to the fund, opting instead to cover claims independently.

Table 8: Liability Reserve FY17 Allocation (in thousands)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$3,000	Austin Resource Recovery	\$275
Economic Development	\$1	Austin Transportation	\$52
Austin Code	\$26	Fleet	\$15
Support Services	\$201	Watershed	\$150
Public Works	\$282	CTM	\$9
Convention Center	\$50		

2.12 SUPPORT SERVICES

\$13.6M

Support Services are services that the City of Austin provides on a centralized basis to all City departments. These services include providing objective analysis of the adequacy of the City’s management systems, maintaining the financial integrity of the entire city government, providing a liaison between the City and other governmental entities and legislative bodies, and managing the implementation of all programs and services. The largest departments contained within the Support Services Fund are Human Resources,

Financial Services, Law, Offices of the City Clerk and Auditor, Mayor and Council, and Management Services.

The Support Services Fund is supported by transfers from departments, which are calculated through the annually updated Support Services Cost Allocation Plan (SS CAP). As with the CTM CAP, the SS CAP is designed to identify as closely as possible the cost of services that the other City departments receive from the Support Service departments. To accomplish that goal, each service department is analyzed to determine the primary service or services it provides and function-specific metrics are identified. The SS CAP uses those metrics to allocate the individual cost pools and then aggregate the results into the final SS CAP for use in the upcoming fiscal year. As part of the annual budget process, the SS CAP is evaluated, updated with the most recent metrics and costs available, and reviewed for accuracy to ensure costs are assigned to receiving departments on a reasonable and consistent basis. The contributions for FY 2016-17 are included in Table 9.

Table 9: Support Services Fund FY17 Allocation (in millions)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$53.1	Austin Resource Recovery	\$3.1
Austin Energy	\$25.8	Austin Transportation	\$2.3
Austin Code	\$1.4	Austin Water	\$12.5
Economic Development	\$1.4	Watershed	\$3.5
Public Works	\$4.1	Aviation	\$4.4
Convention Center	\$1.8	Golf	\$0.2

The SS CAP is prepared in conformity with Generally Accepted Accounting Principles and also used two documents as guides—the United States Office of Management and Budget’s (OMB) “Guidance for Grants and Agreements” (known as the OMB’s Super Circular) and the Government Finance Officers Association (GFOA) Best Practice “Measuring the Cost of Government Service”. The Plan is periodically reviewed by the City Auditor’s Office and other external entities, such as the Federal Aviation Administration, and it is subject to review by an independent external audit firm as part of the City’s annual financial audit.

2.13 WIRELESS COMMUNICATIONS SERVICES FUND \$17.4M

The Wireless Communications Services Fund (Wireless) provides radio communication inventory, installation, maintenance, and repair services to City of Austin departments and area governmental agencies. It maintains the highly reliable Greater Austin Regional Radio System (GATRRS) for users within Austin, Travis County, Williamson County and other jurisdictions. Wireless provides for hardware and software contracts that maintain the City’s 911 recording system and for the broadband activation of radio devices. Wireless’ costs are allocated to City departments and partner agencies based on the number of radios and other wireless equipment and staff time spent on repair work. The contributions for FY 2016-17 are included in Table 10.

Table 10: Wireless Communications Services FY17 Allocation (in thousands)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$13,093	Austin Resource Recovery	\$158
Austin Energy	\$504	Austin Transportation	\$91
Austin Code	\$98	Austin Water	\$329
Fleet	\$18	Watershed	\$364
Public Works	\$151	Aviation	\$146
Convention Center	\$139	Support Services	\$50
Outside Agencies	\$2,295		

2.14 WORKERS' COMPENSATION

\$12.5M

The Workers' Compensation Fund provides payments mandated by State law for City employees' medical expenses associated with job-related injuries and illnesses. The Workers' Compensation Fund also compensates eligible individuals with indemnity payments as required by the State of Texas. These costs are allocated to departments based on the number of positions each department has authorized. The contributions for FY 2016-17 are included in Table 11.

Table 11: Workers' Compensation FY17 Allocation (in thousands)			
Fund/Department	Budget	Fund/Department	Budget
General Fund	\$6,704	Austin Resource Recovery	\$453
Austin Energy	\$1,767	Austin Transportation	\$233
Austin Code	\$124	Austin Water	\$1,213
Fleet	\$224	Watershed	\$291
Public Works	\$519	Aviation	\$438
Convention Center	\$281	CTM	\$91
Golf	\$43	Economic Development	\$61
Other minor funds	\$11		

3.0 Recent Changes to Interfund Transfers

Each year during budget development, the method for distributing costs of shared services to benefiting departments are reviewed and adjustments made when necessary. This process ensures that over time, costs are equitably shared among City departments. In addition, expenditures are reviewed to ensure there is a firm nexus between the services being paid for and the cost of providing those services. Below are the changes made over the last several years.

3.01 311 CALL CENTER

Originally, the 311 Call Center was funded solely by Austin Energy. In 2010, a funding model was established that assigned 25% percent of the costs to AE for the value of the Center as a backup disaster center and allocated the remaining costs based on number of 311 calls. In FY 2013-14 the allocation model was further refined so that costs, net of the backup center value to AE, would be allocated based on the number of service requests processed through the 311 Call Center. The metric was changed to service calls to more accurately reflect the work level provided by the staff since those are the calls that require the most effort. Given the magnitude of the costs involved, a 4-year implementation plan was developed. The allocation model has fully transitioned as of FY 2016-17.

3.02 AUSTIN ENERGY GENERAL FUND TRANSFER

In FY 2013-14, the calculation method determining the amount that Austin Energy transfers annually to the General Fund was revised. Prior to FY 2013-14, the GFT was calculated by multiplying the transfer rate of 9.1% by AE's three-year average revenue. For the FY 2013-14 Approved Budget, AE's transfer calculation was recalibrated based upon a percentage of non-fuel revenue rather than gross revenue. The financial policy now states that the General Fund transfer shall not exceed 12% of Austin Energy three-year average revenues less power supply costs and on-site energy resource revenue. The change in policy created more stability in the annual transfer amount due to the removal of power supply costs and on-site energy resource revenue from the revenue average. This change in revenue included in the calculation and the increased transfer rate resulted in a lower contribution amount by Austin Energy over the long-term.

3.03 BALCONES CANYONLAND PRESERVE

Following the issuance in 1996 of a permit by the U.S. Fish & Wildlife Service covering eight endangered species and twenty seven species of concern, the City of Austin and County created the BCP. At that time, the Parks and Recreation Department (PARD) was responsible for the BCP's management. In FY 2001-02, City Council approved a measure to transfer the BCP program from PARD to Austin Water. In FY 2014-15, after the Public Utility Commission of Texas decided that the BCP costs should not be included in any wholesale rates and as result of continuing citywide efforts to better align service costs with funding sources, the General Fund began transferring funding to Austin Water to cover the management of the BCP. Over the last three years, the General Fund has transferred \$1.1 million, \$1.2 million and \$1.4 million, respectively.

3.04 ECONOMIC DEVELOPMENT

Prior to FY 2013-14, the Economic Development Department—known then as the Economic Growth and Redevelopment Services Office—was fully funded by Austin Energy. Beginning in FY 2013-14, EDD was moved out of Austin Energy and into the new Economic Development Fund, with costs for the fund being allocated between the General Fund, Austin Energy, Austin Water and Austin Resource Recovery. Given

the magnitude of the costs involved, the change was phased in over 4 years. As of FY 2016-17, the change has been fully implemented with \$8.3 million, or over 50% of EDD's costs, being covered by the General Fund, Austin Water and Austin Resource Recovery collectively (see Table 6 above).

3.05 SUSTAINABILITY FUND

The Sustainability Fund was created in FY 2000-01 to provide resources for projects that would help the City of Austin build a sustainable economic, environmental, and equitable infrastructure. Austin Water Utility, Austin Resource Recovery, Watershed Protection, and Transportation each contributed 1% of revenues to cover workforce development and child care contracts, the Community Technology Initiative, public health programs and Neighborhood Housing and Community Development operating costs. In FY 2012-13, Council approved moving expenditures to the General Fund as a result of continuing citywide efforts to better align service costs with funding sources. Expenditures were fully transitioned by FY 2014-15 and the fund was dissolved.

Staff is not recommending any changes to our established financial policies related to the General Fund Transfer or allocation plans for FY 2017-18 with the exception of the Customer Care allocation. Should you have questions, please contact Ed Van Eenoo, Deputy Chief Financial Officer, at 512-974-2638 or Ed.VanEenoo@austintexas.gov.